MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BEC1034 – MICROECONOMICS

(All sections / Groups)

31 MAY 2016
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** printed pages with:
   Section A: Fourty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Economics deals primarily with the concept of
   A. money.
   B. scarcity.
   C. poverty.
   D. banking.

2. Economists use the word *equality* to describe a situation in which
   A. society's resources are used efficiently.
   B. each member of society has the same income.
   C. society is getting the maximum benefits from its scarce resources.
   D. each member of society has access to abundant quantities of goods and services, regardless of his or her income.

3. The terms equality and efficiency are similar in that they both refer to benefits to society. However they are different in that
   A. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
   B. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
   C. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
   D. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

4. The use of theory and observation is more difficult in economics than in sciences such as physics due to the difficulty in
   A. performing an experiment in an economic system.
   B. applying mathematical methods to economic analysis.
   C. analyzing available data.
   D. formulating theories about economic events.

5. Economic models
   A. cannot be useful if they are based on false assumptions.
   B. were once thought to be useful, but that is no longer true.
   C. must incorporate all aspects of the economy if they are to be useful.
   D. can be useful, even if they are not particularly realistic.

6. Which of the following statements about the circular-flow diagram is correct?
   A. One must imagine that the economy operates without money in order to make sense of the diagram.
   B. The diagram leaves out details that are not essential for understanding the economic transactions that occur between households and firms.
   C. The government cannot be excluded as a decision maker in a circular-flow diagram.
   D. All of the above are correct.

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7. In a market economy, supply and demand determine
   A. both the quantity of each good produced and the price at which it is sold.
   B. the quantity of each good produced, but not the price at which it is sold.
   C. the price at which each good is sold, but not the quantity of each good produced.
   D. neither the quantity of each good produced nor the price at which it is sold.

8. In a competitive market, the price of a product
   A. is determined by buyers and the quantity of the product produced is determined by sellers.
   B. is determined by sellers and the quantity of the product produced is determined by buyers.
   C. and the quantity of the product produced are both determined by sellers.
   D. None of the above is correct.

9. If something happens to alter the quantity demanded at any given price, then
   A. the demand curve becomes steeper.
   B. the demand curve becomes flatter.
   C. the demand curve shifts.
   D. we move along the demand curve.

10. Which of the following changes would *not* shift the supply curve for a good or service?
   A. a change in technology.
   B. a change in the price of the good or service.
   C. a change in expectations about the future price of the good or service.
   D. a change in input prices.

11. Price elasticity of demand is calculated as
   A. the percentage change in price divided by the percentage change in quantity demanded.
   B. the absolute change in quantity demanded divided by the absolute change in price.
   C. the absolute change in price divided by the absolute change in quantity demanded.
   D. the percentage change in quantity demanded divided by the percentage change in price.

12. If price elasticity of demand is -0.5,
   A. a 1% decrease in quantity demanded leads to a 0.5% decrease in price
   B. a 50% decrease in price leads to a 1% increase in quantity demanded
   C. a 1% decrease in price leads to a 0.5% increase in quantity demanded
   D. a 50% decrease in price leads to a 100% increase in quantity demanded

13. If the price of a good doubles and quantity supplied triples, then
   A. demand is elastic
   B. supply is elastic
   C. demand is inelastic
   D. supply is inelastic

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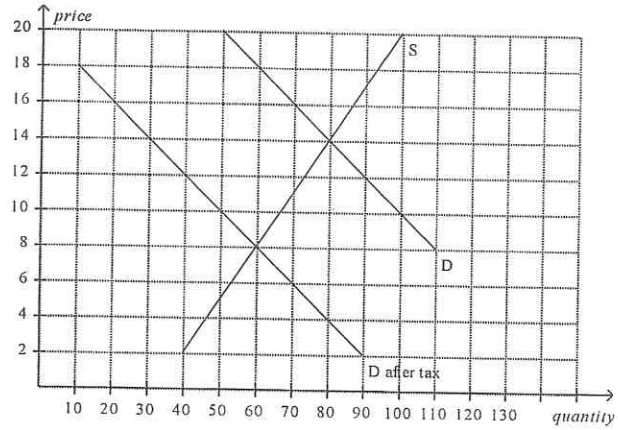
Figure 1



14. Refer to **Figure 1**. The price paid by buyers after the tax is imposed is
    A. RM 18
    B. RM 14
    C. RM 10
    D. RM 8

15. Refer to **Figure 1**. The effective price received by sellers after the tax is imposed is
    A. RM 18
    B. RM 14
    C. RM 10
    D. RM 8

16. Refer to **Figure 1**. The amount of the tax per unit is
    A. RM 4
    B. RM 5
    C. RM 6
    D. RM 10

17. Refer to **Figure 1**. The per-unit burden of the tax is
    A. RM 4 on buyers and RM 6 on sellers.
    B. RM 5 on buyers and RM 5 on sellers.
    C. RM 6 on buyers and RM 4 on sellers.
    D. RM 10 on buyers and RM 0 on sellers.

18. The theory of consumer choice examines
    A. the determination of prices in competitive markets.
    B. how consumers select inputs into manufacturing production processes.
    C. the tradeoffs inherent in decisions made by consumers.
    D. the determination of output in competitive markets.

Continued...

19. Consider two goods, books and burgers. The slope of the consumer's budget constraint is measured by the
    A. consumer's income divided by the price of burgers.
    B. relative price of books and burgers.
    C. consumer's marginal rate of substitution.
    D. number of books purchased divided by the number of burgers purchased.

20. If Ali has one hour of leisure time in which to watch a sporting event on television, his preferences are as follows: Ali prefers watching football to watching baseball, but he prefers watching baseball to watching basketball. He is indifferent between watching baseball and watching hockey. Bundle A contains one hour of football and zero hours of all other sports. Bundle B contains one hour of baseball and zero hours of all other sports. Bundle C contains one hour of basketball and zero hours of all other sports. Bundle D contains one hour of hockey and zero hours of all other sports. If we were to graph Ali's a preference using indifference curves, which of the following bundles would be on the same indifference curve?
    A. A and D only
    B. B and D only
    C. A, B, and C only
    D. There is no combination of the sports that could be drawn on the same indifference curve.

21. Which of the following is an example of implicit cost?
    A. Wages paid to a labor works in a restaurant.
    B. Costs of buying raw materials for a burger stall.
    C. Efforts and time put by a restaurant owner.
    D. Costs of renting a shop lot to run a café shop.

22. In the long run, a firm can vary
    A. its capital input but not its labor input.
    B. its labor input but not its capital input.
    C. both its labor and its capital inputs.
    D. neither its labor nor its capital input.

23. When a firm is experiencing diseconomies of scale,
    A. the marginal product curve is falling.
    B. the long-run average cost curve is rising.
    C. diminishing returns to labor have been suspended.
    D. the marginal cost curve is falling.

24. In perfect competition,
    A. each firm can influence the price of the good.
    B. there are few buyers.
    C. there are significant restrictions on entry.
    D. all firms sell at the same price.

Continued...

25. In perfect competition, a firm
    A. faces unity elasticity of demand for what it produces.
    B. supplies its product with unity elasticity.
    C. faces perfectly elastic demand for what it produces.
    D. supplies its product with perfect elasticity.

26. A firm should expand output as long as its
    A. average total revenue exceeds its average total cost.
    B. average total revenue exceeds its average variable cost.
    C. marginal cost exceeds its marginal revenue.
    D. marginal revenue exceeds its marginal cost.

27. Which of the following is **not** a feature of monopoly?
    A. There are no barriers to entry and exit.
    B. The firm is a price maker.
    C. There are no close substitute goods.
    D. One firm is the only supplier of the good.

28. Patents create monopolies by restricting
    A. demand.
    B. prices.
    C. entry.
    D. profit.

29. A monopoly that is able to perfectly price discriminate
    A. charges everyone the lowest price that they want to pay for each unit purchased.
    B. produces less output.
    C. eliminates consumer surplus.
    D. creates a larger dead weight loss.

30. The dead weight loss is largest for
    A. a perfectly competitive market.
    B. a monopoly.
    C. a perfectly price-discriminating monopoly.
    D. a duopoly.

31. The more firms an oligopoly has,
    A. the more market power the oligopoly has. This results in higher prices and lower quantities of output than an oligopoly with fewer firms would have.
    B. the more important the price effect is, resulting in the market price being higher than when there are fewer firms in the oligopoly.
    C. the farther market price will be from marginal cost.
    D. the more likely the firms will charge a price closer to the perfectly competitive price.

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32. An oligopoly would tend to restrict output and drive up price if
    A. barriers to entering the industry are negligible.
    B. firms engage in informative advertising.
    C. firms produce a standardized product.
    D. firms collude and behave like a monopoly.

33. When firms are faced with making strategic choices in order to maximize profit, economists typically use
    A. the theory of monopoly to model their behavior.
    B. the theory of aggressive competition to model their behavior.
    C. game theory to model their behavior.
    D. cartel theory to model their behavior.

34. Which of the following statements is *not* correct?
    A. Monopolistic competition is similar to monopoly because in each market structure the firm can charge a price above marginal costs.
    B. Monopolistic competition is similar to perfect competition because both market structures are characterized by free entry.
    C. Monopolistic competition is similar to oligopoly because both market structures are characterized by barriers to entry.
    D. Monopolistic competition is similar to perfect competition because both market structures are characterized by many sellers.

35. For a monopolistically competitive firm, at the profit-maximizing quantity of output,
    A. price exceeds marginal cost.
    B. marginal revenue exceeds marginal cost.
    C. marginal cost exceeds average revenue.
    D. price equals marginal revenue.

36. When a monopolistically competitive firm raises its price,
    A. quantity demanded falls to zero.
    B. quantity demanded declines but not to zero.
    C. the market supply curve shifts outward.
    D. quantity demanded remains constant.

37. Diminishing marginal product affects the shape of the production function in what way?
    A. The slope of the production function decreases as the quantity of input increases.
    B. The production function becomes steeper as the quantity of input increases.
    C. The production function slopes downward.
    D. The production function is horizontal beyond a certain quantity of input.

38. If hiring more workers results in each additional worker contributing successively smaller amounts of output, then which of the following is present?
    A. diminishing profitability.
    B. diminishing total product.
    C. diminishing marginal product.
    D. Both (B) and (C) are correct.

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39. Abdul is trying to convince the owner of a sandwich shop to hire him. He argues that he could help the shop sell an additional five sandwiches per day at the market price of $8 each. If the facts are not in dispute, but the owner does not hire him, then
    A. the wage rate must be less than $40 per day.
    B. hiring Abdul would involve a negative marginal product.
    C. the wage rate must be more than $40 per day.
    D. the wage rate must be less than $8 per day.

40. Which of the following is an example of a firm's derived demand?
    A. Workers with higher levels of education earn more, on average, than workers with lower levels of education.
    B. Factors that decrease the demand for labor will decrease the equilibrium wage.
    C. A tractor manufacturer's demand for assembly-line workers is inseparably linked to the supply of tractors.
    D. All of the above are correct.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

(a) You are thinking about opening a hardware store. You estimate that it would cost RM500,000 per year to rent a shop lot and buy the stock. In addition, you would have to quit your RM50,000 per year job as an accountant.

i. Define opportunity cost. (2 marks)

ii. What is your total opportunity cost of running a hardware store for a year? (3 marks)

iii. If you anticipated that you could sell RM600,000 worth of merchandise in a year, should you open the store? Explain. (3 marks)

(b) Your cousin Harry owns a painting company with fixed costs of RM200 and the following schedule for variable costs:

Quantity of Houses Painted per month	1	2	3	4	5	6
Variable cost (RM)	10	20	40	80	160	320

i. Calculate average fixed cost (AFC), average variable cost (AVC) and average total cost (ATC) for each quantity. (9 marks)
(*Hint: Students may reproduce the above table*)

ii. What is the efficient scale of the painting company? (3 marks)

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Question 2 (20 marks)

(a) Adam owns a juice bar and sells lemonade. He sells 50 cups of lemonade per day for RM5.50 each. His daily total cost is RM290, of which RM30 is fixed cost.

i. Should Adam shut down in the shut run? Show your calculations and explain. (3 marks)

ii. Should Adam exit the market in the long run? Show your calculations and explain. (3 marks)

(b) Consider the total cost and total revenue given in the following table:

Quantity	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Total cost (TC)	8	9	10	11	13	19	27	37
Total revenue (TR)	0	8	16	24	32	40	48	56

i. Calculate marginal revenue and marginal cost for each quantity. (8 marks)
(*Hint: Students may reproduce the above table*)

ii. How much should the firm produce to maximize profit? (3 marks)

iii. Sketch the marginal revenue curve and marginal cost curve. (3 marks)

Question 3 (20 marks)

(a) i. Why does the demand curve facing a monopolistically competitive firm slope downward in the long run, even after the entry of new firms? (6 marks)

ii. Why is a monopolistically competitive industry said to be economically inefficient? (4 marks)

(b) Explain with a diagram how the oligopolies behave like a monopolist under cartel agreement. (10 marks)

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